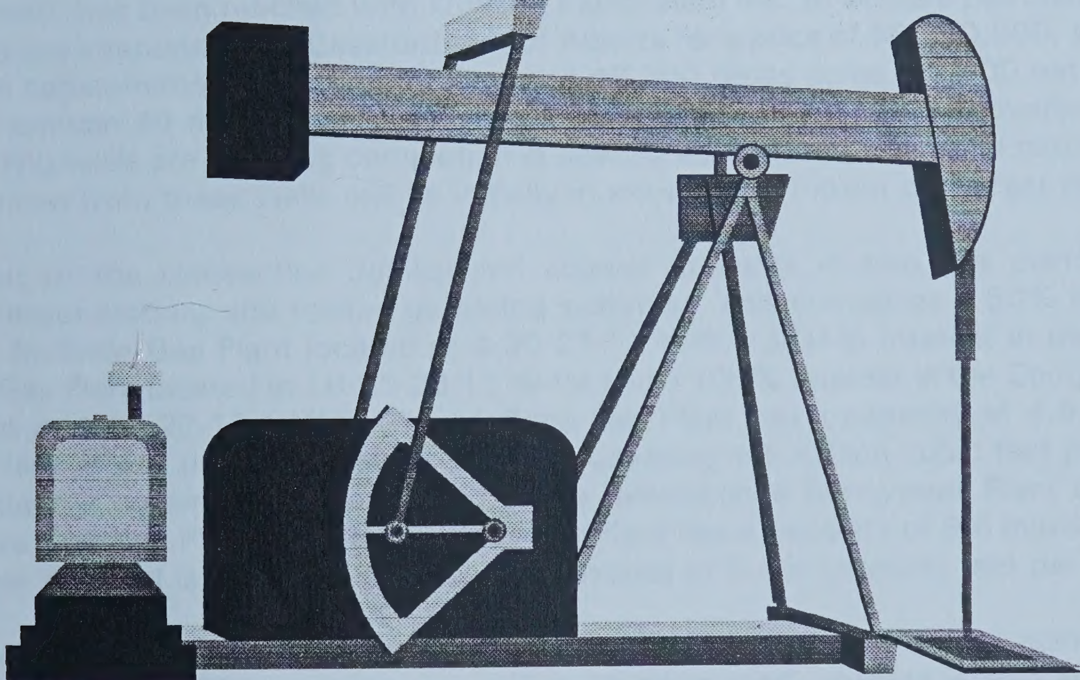
Jubilee Resources Inc.



ANNUAL REPORT
1996

Chairman's Message

During the year ended June 30, 1996, we have continued to work towards positioning Jubilee for expansion and increased shareholder value. In March 1996 a Private Placement of common shares was completed. 9,250,000 common shares were placed, through the facilities of C.M. Oliver & Company Limited at $0.20 per share, to raise $1,850,000 ($1,694,000 net of issue costs) for an oil and gas acquisition. At that time the Company was negotiating the acquisition of a significant gas property in Saskatchewan. Unfortunately, the vendor changed its plans in order to reorganize and refinance all of its various interests. As a result Jubilee has been unable, to this point, to complete the transaction.

Jubilee concurrently pursued other opportunities so that we are pleased to advise you agreement has been reached with Questar Exploration Inc. to acquire petroleum and natural gas interests in the Cessford area of Alberta for a price of $6,250,000, subject to final adjustments. The purchase includes 49,000 gross acres (21,000 net acres) which contain 40 natural gas wells, 24 of which are on production. Several of the remaining wells are awaiting completion in new zones. Jubilee's share of natural gas production from these wells will be initially in excess of 4 million cubic feet per day.

As part of the transaction Jubilee will acquire interests in two gas plants, one compressor station, and related gathering systems: This comprises a 60% interest in the McBride Gas Plant located at 4-30-27-11 W4M, a 34% interest in the Berry West Gas Plant located at 16-21-28-13 W4M and a 100% interest in the Compressor Station at 4-15-27-15 W4M. The McBride Gas Plant has a capacity of 4.6 million cubic feet of gas per day and is presently processing 4.5 million cubic feet per day. This plant is currently interconnected to the Renaissance Sunnynook Plant and the Sceptre Bigstone Plant. The Berry West Gas Plant has a capacity of 9.6 million cubic feet per day and is presently processing in excess of 5 million cubic feet per day.

Of the 21,000 net acres (49,000 gross acres) being acquired in the same area, approximately 14,600 net acres are still to be developed. Jubilee is also acquiring 447 kilometers of seismic information as part of the package.

We expect annual net operating revenue from the acquisition will initially be about $2,000,000, made up of $1,600,000 of natural gas production revenue and $400,000 of gas processing income.

The acquisition provides Jubilee with a core area of operation in a multi-zoned hydrocarbon area of East Central Alberta. The purchase will be effective January 1, 1997 and is expected to close January 31, 1997.

During the 1996 fiscal year, Jubilee's gross revenue was down 26.3% to $220,435 compared with $299,049 in the previous year, primarily as a result of reduced natural gas prices. During the year ended June 30, 1996, Jubilee's average natural gas price was down 19.3% to $1.13 per Mcf compared with $1.40 Mcf average the previous year. The operator of our Dodsland and Greenan properties in Saskatchewan has entered into a term contract as at November 1, 1996 which will see a significant increase in prices for the balance of the year ending June 30, 1997.

Operating costs during the year were up $11,000 due to major compressor repairs at the Greenan plant.

Jubilee disposed of its interest in the Provost, Alberta wells in April 1996 for $70,000 in cash.

Jubilee will participate with the operator of the Dodsland property in drilling 4 new development wells in the new year, which could add a further net 150,000 cubic feet per day to Jubilee's production in this area.

Our latest acquisition will provide Jubilee with significant opportunity to expand our natural gas interests. We are committed to pursuing additional opportunities identified during the year, which we expect will add significantly to oil and gas reserves and cash flow.

With the continued support of our directors and our shareholders, we look forward to a most exciting year of significant growth in financial strength for Jubilee.

ON BEHALF OF THE BOARD OF DIRECTORS

Kenneth W. Winger
Chairman

December 17, 1996

Management's Report to the Shareholders

All the information in this Annual Report is the responsibility of management. The financial statements have been prepared by management in accordance with generally-accepted accounting principles. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency in all material respects with that in the financial statements.

The Company maintains appropriate systems of internal control to give reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the preparation of financial statements.

Ernst & Young, an independent firm of Chartered Accountants, has been engaged to examine the financial statements and provide their Auditors' Report. Their report is presented with the financial statements.

The Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. An Audit Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements before they are presented to the Directors for approval. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Kenneth W. Winger
Chairman

L. Stewart Duncan
President

December 17, 1996

AUDITORS' REPORT

To the Shareholders of
Jubilee Resources Inc.

We have audited the balance sheets of **Jubilee Resources Inc.** as at June 30, 1996 and 1995 and the statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Canada
October 16, 1996

Ernst + Young
Chartered Accountants

Jubilee Resources Inc.
(Incorporated under the Business Corporations Act of Alberta)

BALANCE SHEETS

As at June 30

	1996 $	1995 $
ASSETS *[note 4]*		
Current		
Cash and cash equivalents	**1,418,316**	—
Accounts receivable	**24,291**	22,664
	1,442,607	22,664
Property, plant and equipment *[notes 3 and 5]*	**1,111,384**	1,151,500
	2,553,991	1,174,164
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft	**—**	1,861
Bank loan	**178,300**	290,000
Accounts payable and accrued liabilities	**5,518**	3,224
Due to related party *[notes 5 and 6]*	**47,847**	16,687
	231,665	311,772
Provision for future site restoration	**7,570**	4,007
	239,235	315,779
Shareholders' equity		
Share capital *[note 6]*	**3,075,927**	1,413,252
Deficit	**(761,171)**	(554,867)
	2,314,756	858,385
	2,553,991	1,174,164

See accompanying notes

On behalf of the Board:

Director Director

Jubilee Resources Inc.

STATEMENTS OF LOSS AND DEFICIT

For the year ended June 30

	1996 $	1995 $
REVENUE		
Petroleum and natural gas sales	**220,435**	299,049
Royalties, net of ARTC	**(30,307)**	(38,566)
	190,128	260,483
Interest and other	**16,829**	—
	206,957	260,483
EXPENSES		
Operating	**142,694**	131,374
General and administrative	**99,074**	107,723
Interest	**29,930**	21,850
Depletion and depreciation	**138,000**	152,190
Site restoration	**3,563**	4,007
	413,261	417,144
Net loss for the year	**(206,304)**	(156,661)
Deficit, beginning of year	**(554,867)**	(398,206)
Deficit, end of year	**(761,171)**	(554,867)
Loss per common share *[note 8]*	**(0.01)**	(0.01)

See accompanying notes

Jubilee Resources Inc.

STATEMENTS OF CASH FLOWS

For the year ended June 30

	1996 $	1995 $
OPERATING ACTIVITIES		
Net loss for the year	**(206,304)**	(156,661)
Add item not requiring a current cash payment		
Depletion and depreciation	**138,000**	152,190
Provision for future site restoration	**3,563**	4,007
Funds used in operations	**(64,741)**	(464)
Change in non-cash working capital related to operating activities	**667**	24,062
Cash (used in) provided by operating activities	**(64,074)**	23,598
FINANCING ACTIVITIES		
(Repayment of) proceeds from bank loan	**(111,700)**	90,000
Issue of common shares, net of share issue costs	**1,662,675**	—
Increase in due to related parties	**31,160**	16,687
Change in non-cash working capital related to financing activities	**—**	(7,610)
Cash provided by financing activities	**1,582,135**	99,077
INVESTING ACTIVITIES		
Expenditures on property, plant and equipment	**(168,242)**	(148,236)
Proceeds on disposals on property, plant and equipment	**70,358**	—
Change in non-cash working capital related to investing activities	**—**	8,118
Cash used in investing activities	**(97,884)**	(140,118)
Increase (decrease) in cash during the year	**1,420,177**	(17,443)
Cash position, beginning of year	**(1,861)**	15,582
Cash position, end of year	**1,418,316**	(1,861)

Cash position consists of cash and cash equivalents less bank overdraft.

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

June 30, 1996 and 1995

1. BUSINESS DESCRIPTION

Jubilee Resources Inc. ("the Company") is a junior oil and gas company listed on the Alberta Stock Exchange. The Company's primary focus is the development of petroleum and natural gas reserves in Alberta and Saskatchewan.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles. The financial statements, in management's opinion, have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Property, plant and equipment

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in one Canadian cost centre and charged against earnings in the manner set out below. Such capitalized costs include land acquisition, drilling, geological and geophysical, and overhead expenses related to exploration and development activities.

Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the rate of depletion of 20% or more.

Depletion is provided on the accumulated costs of proved properties, net of estimated salvage for tangible equipment, using the unit of production method. Costs of unproved properties, net of any impairment allowances, are excluded from depletion. For purposes of the depletion calculation, estimated proved petroleum and natural gas reserves, as determined by independent engineers, are converted to a common unit of measure on the basis of their approximate equivalent energy content.

The net book value of the Company's petroleum and natural gas properties, net of any deferred income taxes and the provision for future site restoration, may not exceed the ultimate recoverable amount. This latter amount is determined by applying year end petroleum and natural gas prices to expected future production from proved reserves, adding the cost of unproved properties, and deducting impairment allowances on unproved properties, future general and administrative costs, financing costs, estimated future site restoration costs and income taxes.

Depreciation of production equipment and facilities is computed on the unit-of-production method based on estimated proved reserves.

Future site restoration

Estimated future site restoration costs for property, plant and equipment are accrued and charged against income over the life of the estimated petroleum and natural gas reserves on a unit-of-production basis. Site restoration expenditures incurred are charged to the accumulated provision for site restoration.

Joint interests

The accounts reflect the Company's proportionate interest in exploration and production activities conducted jointly with others.

Income taxes

The Company follows the deferral method of tax allocation accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Company provides for deferred income taxes resulting from timing differences between the recognition of net income for income tax purposes and for financial statement purposes. The source of these differences is principally exploration and development expenditures and capital cost allowance deductions for income tax purposes which differ from depletion and depreciation expense.

3. PROPERTY, PLANT AND EQUIPMENT

	1996 $	**1995** $
Petroleum and natural gas properties, including equipment thereon	**1,440,269**	1,342,385
Less accumulated depletion and depreciation	**(328,885)**	(190,885)
	1,111,384	1,151,500

During 1996, $155,373 (1995 - $49,193) of general and administrative expenditures were capitalized. Costs of $350,566 relating to unproved properties and a major development project have been excluded from the Company's depletion calculation and the ceiling test.

4. BANK LOAN

	1996 $	1995 $
$288,000 reducing demand loan with principal reductions of $5,000 per month; interest at prime plus 2.25% payable monthly	**178,300**	—
$300,000 revolving demand loan with no specific principal repayment terms; interest at prime plus 1.25%	—	290,000
	178,300	290,000

Collateral for the bank loan as at June 30, 1996 consists of the Company's petroleum and natural gas properties, a general assignment of book debts and a registered fixed and floating charge debenture for $5,000,000 covering all assets of the Company. The Company has also pledged a demand promissory note in the amount of $295,000.

Subsequent to June 30, 1996, the credit facility was renegotiated to consist of a $168,300 reducing demand loan, with principal payments of $5,000 per month. Interest is being accrued at a rate of prime plus 1.75%. In addition to the collateral described above, the Company has also pledged a certificate of deposit in the amount of $50,000.

5. RELATED PARTY TRANSACTIONS

Pursuant to a 1994 consulting agreement, the Company agreed to pay a director US $1,650 per month commencing in July 1994. The payments were to be comprised of US $650 cash and the equivalent number of common shares as determined by US $1,000 divided by the weighted average price per share of the previous month. The consulting expenditures have been included in property, plant and equipment as part of capitalized general and administrative expenditures. At June 30, 1996, an aggregate of $47,847 (1995 - $16,687) was due to the director under the terms of this agreement. Subsequent to June 30, 1996, the Company settled $32,762 of this liability by issuing 218,624 common shares as full payment of the common share component of the monthly consideration (see note 6).

During the year ended June 30, 1996, an interest-free loan for $50,000 was advanced from a director. The amount was repaid by the Company in the year. This same director was paid $17,600 for consulting services related to the March, 1996 private placement. The entire amount has been included in share issue costs.

During the year ended June 30, 1996, $31,695 was paid to directors or companies controlled by directors, for consulting services. The entire amount has been included in property, plant and equipment as part of capitalized general and administrative expenditures.

6. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issued:

	1996		1995	
	Number of Shares	Amount $	Number of Shares	Amount $
Balance, beginning of year	**16,895,477**	**1,413,252**	16,895,477	1,413,252
Shares issued for cash in private placement	**9,250,000**	**1,850,000**	—	—
Share issue costs	—	**(187,325)**	—	—
Balance, end of year	**26,145,477**	**3,075,927**	16,895,477	1,413,252

During March, 1996 the Company issued, pursuant to a private placement 9,250,000 common shares at $0.20 per share for aggregate cash proceeds of $1,850,000.

Subsequent to June 30, 1996, the Company issued 218,624 common shares pursuant to the terms of a consulting agreement described in note 5.

Options

As at June 30, 1996, there were outstanding options issued to directors, officers and consultants for 1,400,000 shares exercisable and expiring as follows:

Number	Exercise Price	Expiry Date
750,000	$0.20	December 7, 1998
300,000	$0.175	June 9, 1999
350,000	$0.20	June 4, 2001

Warrants

As at June 30, 1996, there were outstanding warrants issued for 1,175,000 shares exercisable and expiring as follows:

Number	Exercise Price	Expiry Date
250,000	$0.20	January 27, 1997
925,000	$0.20	September 27, 1997

The 250,000 warrants were issued in January 1996 as consideration for a loan made to the Company by a third party. The loan was repaid during the year.

The 925,000 warrants were issued to the agent to the March, 1996 private placement.

7. INCOME TAXES

The provision for income taxes differs from the amount that would have been expected by applying the corporate income tax rate of 44.62% (1995 - 44.4%) to income before income taxes. The principal reasons for this difference are as follows:

	1996 $	1995 $
Expected income tax recovery	**(92,053)**	(69,604)
Increase (decrease) in income taxes resulting from		
Non-deductible crown royalties, net of ARTC	**6,423**	9,729
Financing costs deducted	**(23,244)**	(5,755)
Benefit of operating loss not recognized	**108,874**	65,630
Income tax provision	**—**	—

The following deductions are available to reduce future taxable income:

	$	Annual Rate of Claim %
Canadian development expense	**38,000**	30
Canadian oil and gas property expense	**783,000**	10
Undepreciated capital cost	**190,000**	25 to 30
Cumulative eligible capital	**1,000**	7
Foreign exploration and development expense	**24,000**	10
Financing issue costs	**171,000**	20
	1,207,000	

At June 30, 1996, the Company has cumulative non-capital losses available for carry forward of approximately $580,000 expiring as follows: 1997 - $16,000 1998 - $20,000 1999 - $22,000 2000 - $15,000; 2002 - $225, 000 and 2003 - $282,000. In addition, the Company has net-capital losses available for carryforward of approximately $195,000. The income tax benefits associated with these losses have not been reflected in these financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 1996 and 1995

8. LOSS PER COMMON SHARE

Loss per common share is based on the weighted average number of common shares outstanding during the year of 19,411,915 (1995 - 16,895,477). The exercise of stock options and warrants would have no material dilutive effect.

9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

Corporate Information

Jubilee Resources Inc. acquires and develops oil and natural gas properties in Western Canada. The company also develops and places oil and gas funding vehicles for Canadian and offshore investors. Jubilee is listed on The Alberta Stock Exchange under the trading symbol JUB.

Directors and Officers

Kenneth W. Winger
Chairman and Director
Jubilee Resources Inc.
President, Laidlaw Environmental Services Inc.
Columbia, South Carolina, USA

L. Stewart Duncan
President and Director
Jubilee Resources Inc.
Calgary, Alberta

Christopher S. L. Hoffmann
Director
Partner, McCarthy Tétrault
Toronto, Ontario

Charles T. Newman
Director
President, Tatra International Ltd.
Hamilton, Bermuda

Francesco M. Rossi
Director
Managing Partner, Rossi & Partners
London, U.K.

Colin D. Boyer
Director
President, Upland Production Operators Inc.
Calgary, Alberta

Alan Jochelson
Director
Partner, Code Hunter Wittmann
Calgary, Alberta

Margaret J. Gresham
Corporate Secretary
Jubilee Resources Inc.
Calgary, Alberta

Corporate Offices

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Calgary, Alberta, Canada T2P 3S2
Telephone (403) 262-5489
Facsimile (403) 262-5502

Stock Exchange Listing

The Alberta Stock Exchange
Trading Symbol: JUB

Registrar and Transfer Agent

The R-M Trust Company
600, 333 - 7th Avenue SW
Calgary, Alberta T2P 2Z1

Banking Facilities

Alberta Treasury Branches
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Calgary, Alberta T2P 1B9

Legal Counsel

Code Hunter Wittmann
Barristers and Solicitors
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Calgary, Alberta T2P 4V5

McCarthy Térault
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Toronto-Dominion Centre
Toronto, Ontario M5K 1E6

Auditors

Ernst & Young
Chartered Accountants
1300, 707 - 7th Avenue SW
Calgary, Alberta T2P 3H6